

STATE OF DELAWARE
OFFICE OF
AUDITOR OF ACCOUNTS

DELAWARE NATIONAL GUARD

**INTERNAL CONTROL REVIEW
OF THE GENERAL FUND
AND EXTERNAL ACCOUNTS**

JULY 1, 2004 – JANUARY 31, 2005

PERFORMANCE AUDIT

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EXECUTIVE SUMMARY

BACKGROUND

The Delaware Army and Air National Guard are federally-authorized, requirements-driven, capabilities-based forces with both federal and state missions. The federal mission is to maintain properly-trained and equipped units available for prompt mobilization in the event of war, natural emergency, or other contingencies. In this capacity, command and control is within the purview of the President of the United States. The state mission is to provide trained and disciplined forces for domestic emergencies or as otherwise directed. In a peacetime environment or operation, short of federal mobilization, the organizational command and control is directed by the Governor of Delaware. The Delaware National Guard provides these capabilities by employing a full- and part-time workforce paid using federal, state, or combined funding sources.

The Delaware National Guard provides personnel and equipment in the event of a natural disaster, civil disturbance, or an actual armed conflict. Therefore, the service provided by the Delaware National Guard can be to a local community and/or to the entire population of the State of Delaware and/or the United States of America.

AUDIT OBSERVATIONS

Our fiscal year 2005 audit procedures identified opportunities to strengthen the internal controls of the Delaware National Guard. We identified the following control weaknesses relative to the processing of revenue and expenditure transactions:

- Policies and Procedures: The Delaware National Guard does not maintain written policies and procedures. Also, funds are not being deposited nor are vendor payments being processed within the established requirements.
- Management Review: Processes completed and forms reviewed by the Comptroller's Office did not have proper signatures denoting management review.
- Authorization: Written authorizations for travel and external account expenditures were not consistently completed by the Comptroller's Office.
- Segregation of Duties: Proper segregations of duties were not performed for DFMS access and collections of other funds.

These findings warrant management's prompt attention and action to strengthen the agency's internal control structure.

AUDIT CONCLUSIONS

We evaluated the Delaware National Guard's system of internal controls relative to the processing of revenue and expenditure transactions to determine if internal controls were adequately designed and implemented to provide reasonable assurance that control objectives were met. We found two control objectives were substantially met (Expenditures and Accounts outside of DFMS) and one control objective was not met (Revenues).

AGENCY RESPONSE

Delaware National Guard has put forth a corrective action plan to address each of the control weakness identified in this report.

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AUDIT AUTHORITY

Title 29, Del. C. c. 29 authorizes the Auditor of Accounts to perform postaudits of all the financial transactions of all State agencies. The law requires that the audits be made in conformity with generally accepted auditing principles and practices. Such principles and practices are established by two standard setting bodies: the American Institute of Certified Public Accountants, which has issued generally accepted auditing standards; and the U.S. General Accounting Office, which has issued generally accepted government auditing standards.

BACKGROUND

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OBJECTIVES, SCOPE, METHODOLOGY, AND CONCLUSIONS

OBJECTIVES

The audit consisted of the following objectives:

General Fund Revenues: to determine if internal controls over the authorizing, recording, and processing of transactions exist and are adequate to safeguard the State's assets

General Fund Expenditures: to determine if internal controls over the authorizing, recording, and processing of transactions exist and are adequate to safeguard the State's assets

Petty Cash & External Accounts: to determine if internal controls over the receipt and disbursement of funds in petty cash and external accounts (accounts held outside of DFMS) exist and are adequate to safeguard the State's assets

SCOPE

The performance audit consisted of a review of the internal controls surrounding the General Fund (excluding payroll), the petty cash account, the Historical Fund account, the Coffee/Pepsi Fund account, the Central Fund account, and the Court Martial Fund account of the Delaware National Guard for the audit period of July 1, 2004 through January 31, 2005.

METHODOLOGY

We conducted this audit in accordance with generally accepted government auditing standards. Our procedures consisted of interviews with Delaware National Guard personnel; reviews of policies and procedures in place at the agency; and tests of processes to confirm our understanding and the effectiveness of the controls. We reviewed the control policies and procedures for the following areas:

- Revenues
- Expenditures
- Accounts held outside of DFMS

The criteria used in the performance of this audit consisted of *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO); State of Delaware *Budget and Accounting Policy*; 29 Del. C. Chapter 61, *General Fund*; and 29 Del. C. Chapter 69 - *State Procurement*.

CONCLUSIONS

We evaluated the Delaware National Guard's system of internal controls relative to the processing of revenue and expenditure transactions to determine if internal controls were adequately designed and implemented to provide reasonable assurance that control objectives were met. We found one control objective was substantially met and two control objectives were not met.

The following control objectives were substantially met:

- Determine if internal controls over the authorizing, recording, and processing of expenditure transactions exist and are adequate to safeguard the State's assets.
- Determine if internal controls over the receipt and disbursement of funds in petty cash and external accounts (accounts held outside of DFMS) exist and are adequate to safeguard the State's assets.

The following control objectives were not met:

- Determine if internal controls over the authorizing, recording, and processing of revenue transactions exist and are adequate to safeguard the State's assets.

INTERNAL CONTROL STRENGTHS

The following internal control strengths were identified.

#	Strength	Process	Type of Control
1	The Comptroller reconciles the Delaware National Guard and Reserve Emergency Assistance (DNGREA) Fund deposits to the secretary's tracking spreadsheet of donations received.	Revenues	Reconciliation
2	The Comptroller reconciles the cash register totals, credit card summary, and audit list of units rented for the Bethany Beach Training Site (BBTS) Billeting Fund on a timely basis.	Revenues	Reconciliation
3	The Budget Technician sends a travel report to the Federal travel contacts quarterly to ascertain that no travel expenditures were paid by both the State and Federal Government.	Expenditures	Reconciliation
4	The Budget Technician reviews travel expenditures for accuracy and enters the expenditures into DFMS.	Expenditures	Segregation of Duties; Management Review
5	The Comptroller matches all transactions to the DFMS reports monthly and sends a certification to the Department of Accounting once completed.	Expenditures	Reconciliation
6	The Comptroller completes a Status of Funds Report on a monthly basis and discusses the report with the Assistant Adjutant General.	Expenditures	Management Review
7	The Budget Technician reconciles the bank statements monthly. The Budget Technician is not an authorized signer on the accounts outside of DFMS and is not involved in the cash receipt or cash disbursement process for all external accounts except the Pepsi/Coffee Fund.	Accounts outside of DFMS	Reconciliation; Segregation of Duties
8	All petty cash checks require dual signatures.	Accounts outside of DFMS	Authorization

FINDINGS AND RECOMMENDATIONS

Finding DNG-01:

Management does not maintain an organizational chart detailing levels of responsibility and lines of communication.

According to Chapter 2 of the State of Delaware Budget and Accounting Policy Manual, an organizational chart should be established by the agency. A written organizational chart has not been maintained for the State Comptroller's Office. The audit team determined the office's responsibility and communication structure are communicated verbally. However, the structure is required to be documented in writing.

Control Weakness:

Policies and Procedures

Recommendation:

The Delaware National Guard's State Comptroller's Office should prepare a written organizational chart in order to more effectively detail the levels of responsibility and lines of communication within the office.

Auditee Response:

A written organizational chart for the State Comptroller's Office will be prepared detailing the levels of responsibility and lines of communication within the office. This will include the current verbal responsibilities and communication structure. The expected time for completion is June 2005.

Finding DNG-02:

Delaware National Guard has not developed written policies and procedures that address the agency's internal operations.

According to Chapter 2 of the State of Delaware Budget and Accounting Policy Manual "Department or agency heads are responsible for establishing and maintaining an effective system of internal control...A well designed system of controls must include written policies and procedures to ensure that each control objective is met". The Delaware National Guard utilizes the State Budget and Accounting Policy Manual. This Manual provides assistance regarding the general budgeting and accounting policies; however, they do not address the agency's internal operations regarding the preparation, review and reporting of accounting data and records so that they promote the operational efficiency of the organization. The Delaware National Guard does not maintain written internal control policies and procedures, resulting in inefficient and ineffective organizational operation.

Control Weakness:

Policies and Procedures

Recommendation:

The Delaware National Guard's State Comptroller's Office should establish in-house written policies and procedures that address the receipt and disbursement of agency funds.

Auditee Response:

In-house written policies and procedures that address the receipt and disbursement of agency funds will be established. Estimated completion date is September 30, 2005.

Finding DNG-03:

Funds received by the Delaware National Guard are not being deposited in accordance with the State Budget and Accounting Policy Manual.

According to Chapter 8 of the State of Delaware Budget and Accounting Policy Manual, "those agencies which do receive less than \$100 in daily receipts, shall make a deposit when the accumulated undeposited receipts exceed \$100 or on a weekly basis, whichever occurs first." The Delaware National Guard does not make daily deposits when funds received total \$100 or more. In general, deposits are made on a weekly basis, resulting in noncompliance with the Budget and Accounting Manual.

Control Weakness:

Policies and Procedures

Recommendation:

The Delaware National Guard's State Comptroller's Office should make daily deposits when funds received total \$100 or more.

Auditee Response:

The Delaware National Guard agrees that deposits are not always made when funds greater than \$100 are received. DFMS account deposits will be made in accordance with the Budget and Accounting Manual effective immediately. However, it is not feasible to make deposits to the non-DFMS accounts maintained at Dover Federal Credit Union or DFMS deposits from the Bethany Beach billeting office because of the small size of the staff and the time involved in making these deposits (estimated one hour).

Auditor's Comment

The Comptroller should discuss this issue with the Director of the Division of Accounting and determine if a waiver to this requirement can be obtained.

Finding DNG-04:

The Delaware National Guard is not consistently making payments to vendors within a time period of 30 days.

According to Chapter 7 of the State of Delaware Budget and Accounting Policy Manual, the state should make every effort to issue payments to vendors within 30 days of the receipt of the invoice or goods. Thirty-three of the 136 expenditures tested were not paid within 30 days. When invoices are received by the agency, they are directed to the area that made the purchase.

Once that area approves the invoice for payment, a Form-12 is filled out to accompany the invoice and approved by the purchasing agent and supervisor. The invoice and Form-12 are then routed to the Comptroller's office for payment. It may take 30 days for the purchasing area to route the invoice to the Comptroller's office. Failing to issue payments to vendors within 30 days could result in late charges or other penalties.

Control Weakness:

Policies and Procedures

Recommendation:

Policies and procedures should be put in place to expedite the processing of the invoices, allowing the Comptroller's Office to submit the payment voucher for payment within 30 days.

Auditee Response:

The Facility Management Office will assign another individual to assist with invoice processing so that their office does not fall behind on forwarding invoices to the Comptroller's Office.

Finding DNG-05:

Documentation relative to the revenue process does not show evidence of approval or review.

According to Chapter 2 of the State of Delaware Budget and Accounting Policy Manual, management should establish policies and procedures to ensure that recorded transactions represent real transactions and that all transactions are approved. The rental audit list completed by the Billeting Officer was not signed or dated. In addition, the Comptroller does not sign or date after his review. As a result, the management review of the audit list is not documented.

Control Weakness:

Management Review

Recommendation:

The Billeting Officer should sign the rental audit list denoting preparation; the Comptroller should sign and date denoting review.

Auditee Response:

The billeting officer or other billeting office personnel who prepare the list will sign below the date to certify preparation of the list. The Comptroller or other Comptroller office personnel who process the audit list will date and sign the audit list certifying the review of the listing. The procedure is being implemented April 1, 2005.

Finding DNG-06:

Forms required for the disbursement and receipt of non-appropriated funds were found to have incorrect fund names and inadequate descriptions recorded.

According to Chapter 2 of the State of Delaware Budget and Accounting Policy Manual, management should establish policies and procedures to ensure that recorded transactions represent real transactions and that all transactions recorded are assigned to the proper categories and subcategories. The Delaware National Guard utilizes a form entitled, "Non Appropriated

Receipts and Disbursements Form". This form accompanies revenues and expenditures occurring within several Funds (Coffee/Pepsi, Historical, Central) in place at the Delaware National Guard and it identifies information such as the description of the transaction, the person who approves the form, and the name of the fund of which the transaction pertains to. On 2 out of 12 forms, the name of the fund was incorrect. The Budget Analyst erroneously inputted the name of the fund. As a result, the wrong account could have been charged.

Control Weakness:

Management Review

Recommendation:

The Comptroller should review all "Non Appropriated Receipts and Disbursement Forms" initiated by the Budget Analyst. Additionally, the descriptions on some of these forms should be expanded.

Auditee Response

The Comptroller will review all forms initiated by the Budget Analyst for accuracy and complete justification. The Comptroller's signature and date immediately below the Custodian Signature block of the form will denote this review.

Finding DNG-07:

Travel expenditures are not consistently approved by both the employee's supervisor and the Comptroller.

According to Chapter 13 of the State of Delaware Budget and Accounting Policy Manual, all out-of-state travel must be approved by the agency approval authority prior to employee's travel. In one out of the three travel expenditures sampled, the Comptroller did not approve the travel authorization. The Comptroller did not follow established authorization policies and procedures. All travel authorizations should be approved to ensure funds exist for the expenditure.

Control Weakness:

Authorization

Recommendation:

The Comptroller should approve all travel authorizations prior to the employee's travel.

Auditee Response:

The one travel trip not having the Comptroller's approval was for the Adjutant General. The approval for his travel was done verbally on this one occasion.

Finding DNG-8:

Each user's level of access with DFMS is not consistent with the procedures used in processing transactions.

According to Chapter 2 of the State of Delaware Budget and Accounting Policy Manual, management should establish policies and procedures to ensure that only authorized individuals,

consistent with their job responsibilities, have appropriate access to assets. Both the Comptroller and the Budget Analyst have access to scan, enter, correct, and delete transactions, while also having the ability to approve transactions at the first and second levels. The DFMS access granted to these individuals results in a lack of segregation of duties.

Control Weakness:

Access Control; Segregation of Duties

Recommendation:

The Comptroller's DFMS access should be limited to first and second approval and inquiry for transactions only.

Auditee Response:

To limit the Comptrollers access to only approval authority will create additional workload on an already burdened Budget Analyst and Budget Technician. If and when the second Budget Technician is filled then the Comptrollers access to DFMS will be limited to approval and inquiry.

Finding DNG-09:

Duties were not adequately segregated relative to the Coffee/Pepsi Fund.

According to Chapter 2 of the State of Delaware Budget and Accounting Policy Manual, "the segregation of duties divides the responsibility for a transaction or activity among different parties so that no one employee has complete control over the processing of transactions." The auditors established that the Budget Technician has the ability to count the cash (collected by the machines at the facility), prepare the Non Appropriated Receipts and Disbursement Forms that go along with the cash count, deposit the collected funds into the bank, and complete the bank reconciliation. The Budget Technician's responsibilities do not facilitate an environment that promotes adequate segregation of duties.

Control Weakness:

Segregation of Duties

Recommendation:

The Delaware National Guard's State Comptroller's Office should modify it's current procedures so that there is segregation of duties within the collection, deposit and reconciliation of the Coffee/Pepsi Fund.

Auditee Response:

The Budget Technician will continue to count the cash, the Comptroller will make the deposit and the Budget Analyst will reconcile the bank statement.

DISTRIBUTION OF REPORT

Copies of this report have been distributed to the following public officials:

Executive

The Honorable Ruth Ann Minner, Governor, State of Delaware

The Honorable Jennifer W. Davis, Budget Director, Office of the Budget

Legislative

The Honorable Russell T. Larson, Controller General, Office of the Controller General

Other Elective Offices

The Honorable M. Jane Brady, Attorney General, Office of the Attorney General

Delaware National Guard

Brigadier General Ronald B. Stewart, Assistant Adjutant General

Manuel Balseiro, Jr., State Comptroller

Other

Ms. Becki Surguy, CPA, FMS Specialist, Division of Accounting, Department of Finance